

**REPORT OF THE AUDIT OF THE  
GALLATIN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2001**



**EDWARD B. HATCHETT, JR.**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
GALLATIN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2001**

The Auditor of Public Accounts has completed the Gallatin County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Fund balances increased by \$42,807 from the prior year, resulting in a cash surplus of \$2,716,328 as of June 30, 2001. Revenues increased by \$522,281 from the prior year and disbursements increased by \$635,047.

**Debt Obligations:**

Gallatin County reports no debt.

**Report Comments:**

- Fiscal Court Did Not Budget Gallatin County Ambulance Service As An Activity Of The County
- Fiscal Court Did Not Approve All Claims Against The County Prior To Payment
- The County Did Not Maintain Accurate Supporting Documentation For All Disbursements
- The County Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

**Deposits:**

The fiscal court maintained accounts in three depositories. Deposits at one bank were uncollateralized by \$777,295 on August 30, 2000. Deposits at the second bank were uncollateralized by \$100,000 as of June 30, 2001 and deposits at third bank were uncollateralized by \$8,991 as of June 30, 2001. In addition, the fiscal did not have collateral security agreements at any of the depositories.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George Zubaty, Gallatin County Judge/Executive

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Gallatin County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Gallatin County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Gallatin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable George Zubaty, Gallatin County Judge/Executive  
Members of the Gallatin County Fiscal Court

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Gallatin County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2002 on our consideration of Gallatin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Gallatin County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Fiscal Court Did Not Budget Gallatin County Ambulance Service As An Activity Of The County
- Fiscal Court Did Not Approve All Claims Against The County Prior To Payment
- The County Did Not Maintain Accurate Supporting Documentation For All Disbursements
- The County Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 18, 2002



GALLATIN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

George Zubaty	County Judge/Executive
Eric Moore	Magistrate
Kenneth McFarland	Magistrate
Elsie Ewbank	Magistrate
Sidney Gullion	Magistrate

**Other Elected Officials:**

Steve Huddleston	County Attorney
Nelson Brown	Jailer
Tracy Miles	County Clerk
Sue O'Connor	Circuit Court Clerk
Clifford Higgins	Sheriff
Vesta Moore	Property Valuation Administrator
Brian Lowder	Coroner

**Appointed Personnel:**

Sonja Hopkins	County Treasurer
Elaine Lillard	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS



GALLATIN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets

General Fund Type

General Fund:	
Cash	\$ 782,546
Road and Bridge Fund:	
Cash	1,755,587
Jail Fund:	
Cash	7,431
Local Government Economic Assistance Fund:	
Cash	170,736
County Police Fund	
Cash	24
Ambulance Fund:	
Cash	<u>4</u>
Total Assets	<u><u>\$ 2,716,328</u></u>

Fund Balances

Unreserved:

General Fund Type

General Fund	\$ 782,546
Road and Bridge Fund	1,755,587
Jail Fund	7,431
Local Government Economic Assistance Fund	170,736
County Police Fund	24
Ambulance Fund	<u>4</u>
Total Fund Balance	<u><u>\$ 2,716,328</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

GALLATIN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,059,109	\$ 1,027,975	\$ 604,772	\$ 49,037
Transfers In	368,760	79,582		102,800
Total Cash Receipts	<u>\$ 2,427,869</u>	<u>\$ 1,107,557</u>	<u>\$ 604,772</u>	<u>\$ 151,837</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,614,537	\$ 1,146,072	\$ 253,467	\$ 146,826
Schedule of Unbudgeted Expenditures	401,765			
Transfers Out	368,760	259,178	79,582	
Total Cash Disbursements	<u>\$ 2,385,062</u>	<u>\$ 1,405,250</u>	<u>\$ 333,049</u>	<u>\$ 146,826</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 42,807	\$ (297,693)	\$ 271,723	\$ 5,011
Cash Balance - July 1, 2000	<u>2,673,521</u>	<u>1,080,239</u>	<u>1,483,864</u>	<u>2,420</u>
Cash Balance - June 30, 2001*	<u>\$ 2,716,328</u>	<u>\$ 782,546</u>	<u>\$ 1,755,587</u>	<u>\$ 7,431</u>

\* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.



GALLATIN COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

General Fund Types		
Local Government Economic Assistance Fund	County Police Fund	Ambulance Fund
\$ 164,435	\$ 275	\$ 212,615
	18,345	168,033
<u>\$ 164,435</u>	<u>\$ 18,620</u>	<u>\$ 380,648</u>
\$ 36,504	\$ 31,668	\$ 401,765
30,000		
<u>\$ 66,504</u>	<u>\$ 31,668</u>	<u>\$ 401,765</u>
\$ 97,931	\$ (13,048)	\$ (21,117)
72,805	13,072	21,121
<u>\$ 170,736</u>	<u>\$ 24</u>	<u>\$ 4</u>

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Gallatin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Gallatin County Ambulance as part of the reporting entity.

Additional - Gallatin County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Gallatin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. A list of Gallatin County Fiscal Court's Fund Types, a definition of each, and a list of county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Gallatin County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, County Police Fund and Ambulance Fund.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Gallatin County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GALLATIN COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2001  
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$881,543 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with the depository institution securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2000.

	<u>Bank Balance</u>
Insured or collateralized with securities held by the county's agent in the county's name	\$ 1,926,546
Uncollateralized and uninsured	<u>881,543</u>
Total	<u>\$ 2,808,089</u>

Note 4. Insurance

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

For the fiscal year ended June 30, 2001, Gallatin County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 5. Public Properties Corporation

On November 22, 1999, the Gallatin County Fiscal Court formed a Public Properties Corporation. The purpose of this Corporation is to cooperate with, and to act on behalf of, at the direction of and as the agency, instrumentality, and constituted authority, of the county of Gallatin, Kentucky in the development, acquisition, financing, and/or refinancing of any public projects which may be undertaken by the County pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the County.

Note 6. Gallatin County Industrial Authority Board

During March 1997, the former Gallatin County Judge Executive appointed six people to the Gallatin County Industrial Authority. Two terms expired February 1998, two terms expired February 2000, and two terms expired February 2001. As of June 30, 2001 this board had \$2,246 in the bank.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





GALLATIN COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,272,838	\$ 1,027,975	\$ (244,863)
Road and Bridge Fund	534,025	604,772	70,747
Jail Fund	56,000	49,037	(6,963)
Local Government Economic Assistance Fund	65,000	164,435	99,435
County Police Fund		275	275
Ambulance Fund		212,615	212,615
Totals	<u>\$ 1,927,863</u>	<u>\$ 2,059,109</u>	<u>\$ 131,246</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 1,927,863
Add: Budgeted Prior Year Surplus	<u>1,273,137</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 3,201,000</u>

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SCHEDULE OF OPERATING REVENUE



GALLATIN COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Revenue Categories</u>	<u>General Fund Type</u>
Taxes	\$ 394,216
In Lieu Tax Payments	89,270
Excess Fees	16,068
Intergovernmental Revenues	1,152,820
Charges for Services	213,919
Miscellaneous Revenues	40,905
Interest Earned	<u>151,911</u>
Total Operating Revenue	<u>\$ 2,059,109</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





GALLATIN COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 748,719	\$ 329,258	\$ 419,461
Protection to Persons and Property	614,139	410,333	203,806
General Health and Sanitation	601,600	336,885	264,715
Social Services	16,600	4,016	12,584
Recreation and Culture	171,660	78,273	93,387
Roads	616,500	231,235	385,265
Airports			
Debt Service			
Capital Projects	50,000	4,433	45,567
Administration	381,782	220,104	161,678
TOTAL BUDGET-ALL GENERAL FUND TYPES	<u>\$ 3,201,000</u>	<u>\$ 1,614,537</u>	<u>\$ 1,586,463</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES



GALLATIN COUNTY  
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Ambulance Fund</u>
Ambulance Service	<u>\$ 401,765</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George Zubaty, Gallatin County Judge/Executive

Members of the Gallatin County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Gallatin County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gallatin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Fiscal Court Did Not Budget Gallatin County Ambulance Service As An Activity Of The County
- Fiscal Court Did Not Approve All Claims Against The County Prior To Payment
- The County Did Not Maintain Accurate Supporting Documentation For All Disbursements
- The County Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

In planning and performing our audit, we considered Gallatin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Gallatin County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 18, 2002

## COMMENTS AND RECOMMENDATIONS



GALLATIN COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2001

STATE LAWS AND REGULATIONS

REPORTABLE CONDITIONS

1. Fiscal Court Did Not Budget Gallatin County Ambulance Service As An Activity Of The County

Guidance provided by the accounting profession indicates that the Gallatin County Ambulance Service is an activity of the Gallatin County Fiscal Court. The county budget process omitted the ambulance service because the ambulance service has a separate governing board. However, the Fiscal Court appointed the entire board in May 1999, giving fiscal court significant influence and financial accountability. In addition, the ambulance service is not a legally separate entity, as the ambulance service can be sued with recourse to the county. KRS 68.240 (4) requires the county budget to include such budget units as required by the activities of the county. For this reason, ambulance service activities are to be included in Gallatin County's audited financial statements with disbursements presented on a Schedule of Unbudgeted Expenditures. We recommend the ambulance service revenues and expenditures be budgeted during the normal budget process of other county funds, included in the budget for approval by the state local finance officer, and reported on the Gallatin County financial statement.

*County Judge/Executive George Zubaty's Response:*

*Effective July 1, 2001 the Ambulance became a fund of the Gallatin County Fiscal Court.*

*Former County Treasurer Sonja Hopkins's Response:*

*None noted.*

2. Fiscal Court Did Not Approve All Claims Against the County Prior To Payment

Payments from the Ambulance Fund were not routinely presented to the fiscal court for approval. KRS 68.275 requires claims be presented to the fiscal court for review prior to payment. We recommend claims be presented for fiscal court approval as is done with the General Fund, Road Fund, Jail Fund, LGEA Fund, and County Police Fund.

*County Judge/Executive George Zubaty's Response:*

*As of 7/1/01 Ambulance Fund is part of the Gallatin County Fiscal Court and all claims are reported and approved by the Fiscal Court just like all other funds of the Fiscal Court.*

*Former County Treasurer Sonja Hopkins's Response:*

*None noted.*

GALLATIN COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2001  
(Continued)

3. The County Did Not Maintain Accurate Supporting Documentation For All Disbursements

Testing of random ambulance service disbursements revealed a lack of adequate supporting documentation. Five disbursements did not have a vendor invoice as support. Three invoices did not agree to the amount of the check. We recommend retention of supporting documentation to conform with guidelines promulgated by the KY Department of Libraries and Archives.

*County Judge/Executive George Zubaty's Response:*

*The Finance Officer & Treasurer will work together to insure before any payments are made that all supporting documentation is with the invoice and that they match (both invoice and check).*

*Former County Treasurer Sonja Hopkins's Response:*

*None noted.*

4. The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

As of August 31, 2000, \$881,543 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institutions to secure the county's interest in the collateral pledged or provided by the depository institutions. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Judge/Executive George Zubaty's Response:*

*The newly hired Treasurer has instituted collateral security agreements with all banking institutions we do business with.*

*Former County Treasurer Sonja Hopkins's Response:*

*Past Treasurer asked financial institutions for security agreements several times. Did not get a response.*

GALLATIN COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2001  
(Continued)

5. Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American Institute of Certified Public Accountants. Due to budget restrictions there are limited options for establishing an adequate segregation of duties. During the course of the audit it was noted that the County Treasurer collects receipts, posts to the ledgers, makes deposits and reconciles the bank accounts. We recommend in the future that the County Treasurer delegate some of these duties such as reconciling the bank accounts. We also recommend that the County Judge Executive's Office receive the mail and keep a listing of receipts.

*County Judge/Executive George Zubaty's Response:*

*We are implementing a daily cash receipts log, completed by the Finance Officer. The Judge will open all mail and forward to the Finance Officer to log.*

*Former County Treasurer Sonja Hopkins's Response:*

*None noted*

PRIOR YEAR FINDINGS

Fiscal Court Did Not Budget Gallatin County Ambulance Service As An Activity Of The County

*Repeated in current year.*

Fiscal Court Did Not Approve All Claims Against the County Prior To Payment

*Repeated in current year.*

The County Did Not Maintain Accurate Supporting Documentation For All Disbursements

*Repeated in current year.*

The County Did Not Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

*Repeated in current year.*

The County Did Not Maintain Accurate Uniform Books Of Accounts

*Corrected in current year.*

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

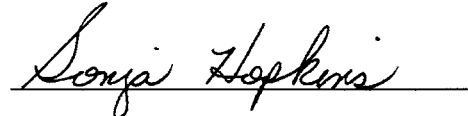


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
GALLATIN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Gallatin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
County Judge/Executive

  
\_\_\_\_\_  
Name  
County Treasurer